



United States
Department of
Agriculture

Rural
Housing
Service

Oregon AN No. 1252 (1980)

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September 17, 2003

SUBJECT: Guaranteed Rural Housing (GRH) Program
Agency Review of GRH Applications

TO: Rural Development Managers
Rural Development
Oregon

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide updated guidance on the Agency's role and responsibilities and level of review of GRH applications. The guidance is intended to expand upon and supplement Section 1980.354 of RD Instruction 1980-D. This AN is substantially similar to the previously issued AN on this subject.

COMPARISON WITH PREVIOUS AN:

This AN replaces Oregon AN 1234(1980) issued August 26, 2002.

IMPLEMENTATION RESPONSIBILITIES:

The lender must submit a loan application package for Agency review prior to expiration of the reservation of funds. Form RD 1980-21, "Request for Single Family Housing Loan Guarantee", Revision 1/2003, summarizes the details of the loan to be guaranteed and requires the lender to certify that all eligibility requirements have been met. Exhibit A is provided and summarizes the documentation necessary for the Agency to determine the application is complete.

When an application is received, the Agency will log the application and information into the Guaranteed Loan System (GLS). The GLS is representative of an application processing card. The following summarizes the review, approval and/or denial of a GRH commitment request:

EXPIRATION DATE:

September 30, 2004

FILING INSTRUCTIONS:

Proceeding RD Instruction 1980-D

USDA is an equal opportunity lender, provider and employer.
Complaints of discrimination should be sent to:
USDA, Director, Office of Civil Rights, Washington, DC 20250-9410

A. Content of Typical/Standard Review

The Agency will review the contents of a GRH loan application to insure that all program requirements have been met, but will not review the lender's underwriting decisions. The lender has sole responsibility for properly underwriting the loan and ensuring that all program requirements have been met. Agency review does not relieve the lender of these responsibilities. In general, a detailed review of the lender's underwriting analysis is not required, unless circumstances warrant a more thorough review. Evidence of a **standard review** (abbreviated review not requiring a review of underwriter's decision) will be documented on **Exhibit B** to this AN.

B. Thorough Review of Underwriting Decision

Although the Agency generally does not review the content of a lender's underwriting analysis, the Agency will review the lender's underwriting decisions in limited circumstances. The following types of circumstances warrant a specific review of the lender's underwriting decisions:

Lenders/Underwriters that are new to the program. The extra care in review will ensure that the lender has a complete and accurate understanding of the Agency's requirements, and that the decisions made by the lender's underwriters accurately reflect the Agency's expectations.

Lenders working with funded buydown accounts. When a borrower receives a funded buydown and the ratios at the note rate exceed the Agency's requirements; the Agency will review the lender's underwriting to ensure that justification for the buydown is adequate. When the ratios at the note rate is exceeded, a written repayment ratio waiver issued by the Agency is required. Documentation must be evident that indicates the ratios will be in line the 3rd year of the loan.

Lenders that submit incomplete or inaccurate applications. A thorough review can ensure that faulty application packages are not approved and provide the lender with intensive technical assistance to help the lender learn the Agency's requirements thoroughly and accurately.

Lenders with significant monitoring findings. If discovered that lender's underwriting decisions have not been consistently sound, the Agency may choose to review that lender's application packages thoroughly until such time our analysis demonstrates the lender's commitment to adhering to the Agency's policies. Examples of a significant monitoring finding would be originating lenders with a first year delinquency in excess of 3%, high serviced delinquency and non-compliance issues.

Documentation and evidence of a **thorough review** will be on **Exhibit C** to this AN.

C. Notification of Approval Status.

In accordance with Section 1980.354 of RD Instruction 1980-D, loan approval officials are to notify the lender of the results of the Agency review within 48 hours of receipt. The 48-hour delivery does not

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allow additional time for applications received prior to a weekend. Communication and understanding are key issues in lender relationships. Notification results:

The application is incomplete. Fax to the lender a specific list of items that are missing, incomplete or inadequate. It is recommended also that a telephone call to the underwriter for complete understanding be made.

The request for a loan guarantee is approved. Communicate to the lender the approval status by telephone or fax. Mail Form RD 1980-18 to the lender confirming the Agency's commitment.

The request for a loan guarantee is denied. If the loan fails to meet program requirements or the Agency cannot concur with requested waivers, the loan guarantee will be denied. The loan must be to an eligible applicant, for an eligible loan purpose, for an eligible property from an approved lender. Review and appeal rights are to be provided to the lender. Communicate the Agency's unwillingness to approve the loan guarantee request by telephone prior to mailing a rejection letter.

The Agency requires additional time to complete the review. In rare situations additional review time may be warranted. Within the review time frame, notify the lender by telephone or fax of the delay and provide a non-binding estimate of when a final decision is expected. Additional written notification is recommended.

D. Conditions for the Loan Guarantee.

Once the review is conducted the Agency may attach conditions to Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee". Requests for additional information should be limited to items that are actually needed to ensure compliance with program requirements. Agency staff is to utilize the GLS system for issuance of the commitment and cover letter. When the Agency has determined the commitment request eligible subject to a waiver of repayment ratio granted by the Agency approval official should utilize the condition page, with a signature line granting the waiver and basis. This process is necessary to retain the waiver as a permanent document of the case file for future imaging purposes.

E. Loan Closing

The conditional commitment period provides the lender with 90 days to close the loan under the conditions noted in the Agency's commitment. The lender may request the Agency to extend a commitment for one additional 90 day period if the lender has been unable to close the loan due to circumstances beyond its control, such as an extended construction period. The Agency must grant any approved extension in writing, either through a letter or fax, which includes the loan approval official's signature. The GLS will be updated with the extension granted. The lender must sign Form RD 1980-18 to certify that no major changes have taken place that would affect eligibility for a loan guarantee and that all conditions specific to the commitment have been met.

F. Request for Loan Guarantee

Within 30 days after loan closing, the lender should request issuance of the loan guarantee using Form RD 1980-19, "Guaranteed Loan Closing Report". At the same time, the lender must submit documentation that the loan was properly closed and pay the guarantee fee. A Loan Note Guarantee will not be issued beyond 30 days of the loan closing if the account is in default.

The loan approval official will confirm the closing report and the supporting documentation provided by the Lender is consistent with the conditional commitment. If all of the closing documents are acceptable, the Agency will proceed to issue the loan note guarantee by executing Form RD 1980-17, "Loan Note Guarantee".

G. Loan Guarantee Fee

The loan guarantee fee is equal to one and one-half percent of the amount actually loaned to the borrower for purchase transactions and one-half of one percent for refinance transactions. The fee will not be processed until the guarantee is issued and will be returned to the lender if the guarantee is not issued. Once the fee is paid and the guarantee issued, the fee is nonrefundable.

Guaranteed loan fees are not processed as direct loan fees are. Do not send guaranteed loan fees to the Centralized Servicing Center. Fees are to be recorded on Form RD 451-2, "Schedule of Remittances", as Miscellaneous Collection Code 30, and sent along with the Form 451-2 and Form RD 1951-60, "Field Office Remittance Reconciliation Report", to the wholesale lockbox at the following address:

Rural Development, USDA
PO Box 845084
Dallas, TX 75284-5084

All fees must be endorsed with the following:

ALC: 12-20-0408
Pay to any FRB or Limited
Depository for Credit to the
U.S. Treasury
USDA, Rural Development

H. Summary

The responsibility of the Agency is to ensure approved GRH lenders - underwriters, processors, and loan officers - have a sound understanding of the program requirements. This is accomplished through continuous training, communication and development of professional relationships. The extent of an Agency review of a GRH loan guarantee request is based upon the knowledge and understanding of the lender who submitted the request. Time invested in communicating the expectations of the Agency to participating partners can match to new homeowners, sound loan guarantees, increased volume, and strong working relationships.

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If you have any questions regarding this Administrative Notice (AN), please feel free to contact Single Family Housing at (503) 414-3335.

A handwritten signature in blue ink, appearing to read 'Lynn Schoessler', with a long horizontal stroke extending to the right.

LYNN SCHOESSLER
State Director

Attachments